

Taking A Pension Loan **AFTER** January 1, 2004?

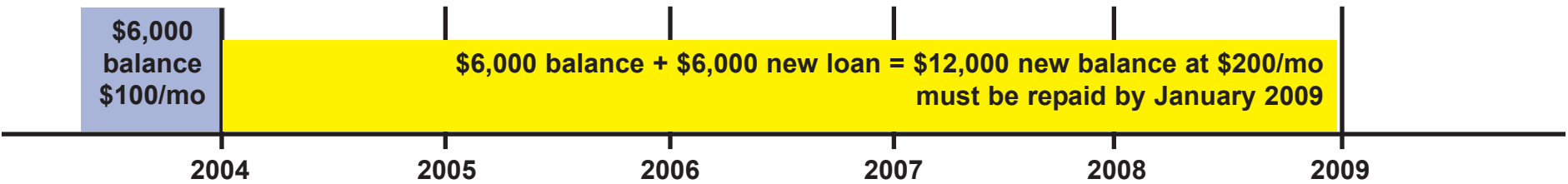
READ THIS!

Beginning January 1, 2004 Internal Revenue Service regulations require the Division of Pensions and Benefits to change its loan repayment policy. If you take a loan after January 1, 2004, you must repay that loan and any previous outstanding balance within a five-year period. If you take a second loan after January 2004 and your original loan balance is not completely paid off, the repayment period will remain 5 years from the first loan taken after January 1, 2004.

Here's an example to show what happens if you take a loan after January 2004:

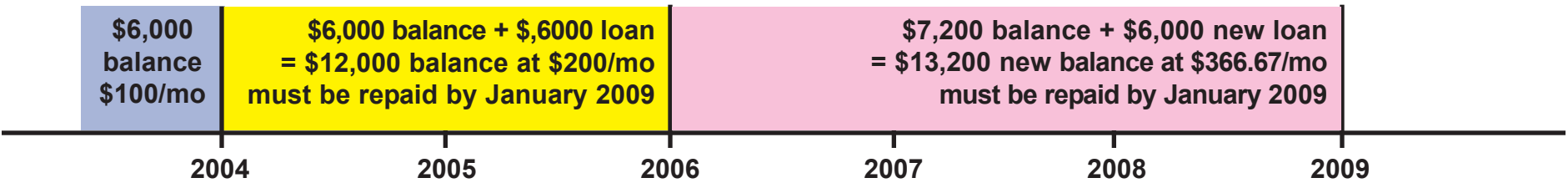
Charlie has a loan balance and plans to take several more loans in the future.

- Charlie Miller makes \$24,000 each year. Charlie has taken loans in the past and has an outstanding loan balance of \$6,000.
- Charlie applies for a loan in January 2004 for \$6,000. Charlie's new loan balance is \$12,000.
- Charlie also asks for the minimum repayment schedule; however, because he must pay the loan by the end of **January 2009**, his repayment schedule is higher — he will repay his loan at **\$200** for 60 months.



Charlie is happy with his loan amount and can afford the higher repayment amount, so he cashes his check.

- In January 2006 Charlie decides to take another loan for \$6,000. He has repaid \$4,800 from the January 2004 loan. His new combined pension loan balance is \$13,200.
- The \$13,200 loan balance MUST BE REPAID by the end of January 2009! (Five years from date of the January 2004 loan.)**
- This means Charlie must repay \$366.67 per month over 36 months, until the loan is paid off at the end of January 2009. (His loan repayment has increased by \$166.67 per month!)



PLEASE REMEMBER WHEN TAKING A LOAN...

- Always check with the Division of Pensions and Benefits before taking a loan.** You can check your outstanding balance, available loan amounts, and repayment schedule by calling the Automated Information System at (609) 777-1777.
- If you take a loan, CAREFULLY review the repayment schedule listed on the stub attached to the loan check!** If you are not happy with the schedule you can send the check back to the Division of Pensions and Benefits. However, by cashing the check you are agreeing to the terms and conditions required by the IRS and the State of New Jersey.
- Your final payment must be received and posted to your account before you can take a loan with a new five-year window.** "Posted to your account," means that your employer sends your pension contributions and loan payments to the Division of Pensions and Benefits at the end of the quarter, and the system is updated with your new information (approximately 45 days after the end of the quarter). If you have recently submitted a lump-sum to repay your loan in full, please note this on your *Loan Application* when applying for a new loan in order to reset your five-year window.
- The Division of Pensions and Benefits loan regulations will otherwise remain the same:**
 - You must have three years of pension contributions posted to your retirement account.
 - You may borrow up to one-half of your pension contributions.
 - You cannot borrow more than \$50,000.
 - You may borrow up to two times each calendar year.
 - The interest rate is 4% per year on the unpaid balance of the loan.
 - Your minimum repayment is set by law at a percentage of your gross salary: 5% for PERS and TPAF members, 8.5% for PFRS, 7.5% for SPRS members and Prosecutors (Part of PERS), and 3% for JRS members.
 - The maximum repayment allowed is 25% of your gross salary.
 - If you fail to make loan payments or repay within a five-year period, your loan may be considered a taxable distribution.